FDI Promotion in Ukraine: Arguments for an independent national FDI promotion agency

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Structure

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What do foreign direct investors need?

Investors want a clear and balanced picture of opportunities and challenges; that is the basis for calculating a realistic business case.

In order to get that picture, they need:

- Information about
  - Investment opportunities
  - Available land plots to buy/to rent, industrial parks, infrastructure
  - Investment incentives
  - Local markets, potential local suppliers
  - Local responsible authorities
- Support with
  - Country visits, investment site visits
  - Negotiations
  - Registration; getting licenses, permits, approvals
  - Recruitment, training

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Solution: A FDI promotion agency

- Most countries in the world have national FDI promotion agencies that:
  - Focus on the promotion of foreign direct greenfield investments
  - Act as the single point of contact for potential investors on the national level
  - Support investment decision making and implementation process
- Ukraine, current situation:
  - No central government authority or other public body that deals exclusively with promotion and attraction of FDI
  - No single point of contact that a potential foreign investor can easily find and approach for information and support
  - Not clear, which institutions are responsible for supporting investors
  - (Not clear, which institution will be in charge of the functions of the former 'InvestUkraine')

Conclusion 1: A FDI promotion agency should be created.

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Why a central national FDI promotion agency?

Why a national FDI promotion agency and not just regional FDI agencies?

According to international best practices (develop. & transition countries), FDI promotion is most effective and efficient, if following success factors are provided

- Visibility: Investors want a single point of contact
- Accessibility: Investors want fast and qualified responses
- Credibility: Investors want guarantee that FDI agency has strong political support
- Guidance: Investors want support with the pre-selection of regions and with approaching potential investment sites in the region

Conclusion 2: A central national FDI promotion agency as the first contact for potential foreign greenfield investors is the most efficient solution.

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Why an operationally independent FDI promotion agency?

Why should the national FDI promotion agency be an independent organisation?

FDI attraction is a global competition. In order to succeed, an FDI promotion agency need to be fast, flexible and skilled at international standard. Therefore, the world's leading FDI agencies are based on the following success model:

- State-owned organisation
- Goals and strategy are defined by government (e.g. Ministry of Economy), following the economic policy goals of government
- Operational freedom: No political interference at operational level
- Independent personnel management: No political interference at staffing decisions
- Accountability to the Ministry of Economy or to the head of government

Conclusion 3: The FDI promotion agency should be an operationally independent state-owned organisation.

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What special problems do foreign direct investors face in Ukraine?

Investors want to avoid the traps of corruption.

In order to do so, they must:

- Understand which practices of local authorities' representatives are legal, which are illegal
- Convince local partners that their investment will benefit the entire region, but not just special persons

In order to do so, they need:

- Access to local networks
- Protection from illegal administrative practices
- Protection from attempts of corruption

Conclusion 4: Special instruments, that meet the special challenges of Ukraine, need to complement common investment promotion measures.

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Special solution 1/2: Investment Scouts

Investment Scouts is a special tasks force within FDI promotion agency:

- Research about investment opportunities, including
  - Sector specific market needs and niches,
  - Advantageous investment sites,
  - Sector specific regulation, policy and investment incentives.
- Channel investors to the regions: Build up and manage relationships to local authorities, local investment intermediaries and local private sector representatives.
- Investment facilitation: support investors through the entire investment life-cycle from first contact to implementation (country visits, negotiations, location choice, registration, licensing etc.).

Skills of Investment Scouts:

- Fluent English
- Specific industry knowledge
- Private sector experiences

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Special solution 2/2: Investment Mentors

Investment Mentors are people outside the FDI promotion agency that support investment implementation:

- Acts as investment ombudsmen
- Help to ensure that foreign investors get fair chances on a legal basis
- Help to prevent disputes beforehand

Characteristics of Investment Mentor:

- Independent + neutral
- High reputation

The cooperation of ‘Investment Scout’ and ‘Investment Mentor’ establishes a four-eyes principle = good approach for corruption prevention (team composition ‘I. Scouts’ and ‘I. Mentors’ need to change regularly).

Conclusion 5: The special instruments Investment Scouts and Investment Mentors are a proposal that could be of interest for further elaboration.

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